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WEINBERGER DRUG STORES, INC.

Annual Report to Stockholders
for the Fiscal Year
ended June 30, 1942

CORP. FILE

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WEINBERGER DRUG STORES, INC.

NOTICE OF ANNUAL MEETING,
Including
PROXY STATEMENT

Notice is hereby given that the annual meeting of shareholders of Weinberger Drug Stores, Inc. will be held at the principal office of the Corporation, 2400 Superior Avenue, Cleveland, Ohio, at 3 o'clock P.M. on Tuesday, September 8, 1942, for the purpose of (a) fixing the number of and electing Directors for the ensuing year; (b) considering and acting upon a proposed amendment to the Regulations of the Corporation consisting of an additional Article providing for the indemnification of Directors and officers as set forth hereinafter; and (c) transacting such other business as may properly come before the meeting.

I.—GENERAL

The enclosed proxy is being solicited by the management and the entire cost of solicitation will be paid by the Corporation.

At the present time it is intended that proxies which contain a direction so to do, or which contain no direction on the particular matter, will be voted in favor of (1) the adoption of the amendment mentioned in (b) above, (2) fixing the number of Directors at seven, and (3) the election of the following persons (hereinafter called nominees) for Directors: J. G. Gosling, Mortimer Jacobs, Thomas H. Jones, M. M. Neubauer, Joseph Spivack, Adolph Weinberger and L. J. Wolf. All of the nominees are now serving as Directors of the Corporation. Financial and other reports will be submitted to the meeting and minutes of previous meetings of shareholders and Directors will be made available for inspection by the shareholders at the meeting, but it is not intended that any action will be taken with respect thereto. It is not anticipated that matters other than the election of Directors and adoption of the amendment to the Regulations will be brought before the meeting for action. However, it is intended that the persons authorized under solicited proxies may vote or act with respect to all matters presented for action at the meeting, including the election of Directors and the consideration and action upon the proposed amendment, according to their judgment in the light of conditions then prevailing, except as to a matter with respect to which the shareholder has indicated a direction.

For its past fiscal year the Corporation paid to Messrs. Weinberger, Spivack and Neubauer total remuneration of $25,999.84, $17,500.00 and $9,000.20, respectively, which were the three highest aggregate amounts of remuneration paid by the Corporation and its subsidiary to any Director, officer or employee for that year. The aggregate amount of remuneration paid by the Corporation and its subsidiary to the Corporation's Directors and officers for its past fiscal year was $80,011.71. The Corporation also paid $4,235 for legal services during that year to Messrs. Jones, Day, Cockley & Reavis, a firm in which Mr. Jones is a partner.

Based upon information received from the respective nominees, the Corporation

believes that as of the close of business on July 20, 1942, the respective nominees owned beneficially the number of shares of capital stock of the Corporation set opposite their names below:

J. G. Gosling	—o— shares
Mortimer Jacobs	1,499 shares
Thomas H. Jones	—o— shares
M. M. Neubauer	178 shares
Joseph Spivack	1,599 shares
Adolph Weinberger	19,491 shares
L. J. Wolf	18 shares

Mr. Weinberger, his wife, Minnie Weinberger, and his children, Carl, Jerry and Elaine Weinberger, owned at that time an aggregate of 28,206 shares, or approximately 31.34%, of the outstanding capital stock of the Corporation.

II.—AMENDMENT TO CORPORATE REGULATIONS

A proposal will be submitted to amend the Corporation's Regulations by adding a new Article, the purpose of which is to provide additional inducement to persons to serve or continue to serve the Corporation as Directors or officers by affording them some protection in connection with certain claims or suits if any are brought against them. It is believed that where a Director or officer has not been derelict in the performance of his duty it is only fair that the Corporation should relieve him of the expense of defending claims or suits brought against him in connection with his service to the Corporation. The general effect of the proposed amendment is to provide for reimbursement to each Director and officer of the Corporation for all costs and expenses reasonably incurred for advice or assistance concerning, or in connection with the defense of, claims asserted and suits brought against him by reason of his being or having been a Director or officer, except in relation to matters as to which he is derelict in the performance of his duty as a Director or officer. Where a Director or officer has not been derelict in the performance of his duty reimbursement may be made to him for expenses in obtaining advice and assistance in connection with a claim even though no suit is brought against him or a suit is brought but is settled without adjudication on the merits. In the event a Director or officer is held liable in a suit or proceeding to which he is a party determined on the merits but is not adjudicated therein to have been derelict in the performance of his duty, he may be entitled to reimbursement of his costs and expenses. It is intended that the indemnification will extend only to present or future Directors and officers, whether or not they continue as such at the time of incurring the expenses in question. The proposed amendment according to its terms would have the effect, among others, of authorizing the indemnification of Directors and officers in certain cases against costs and expenses paid by them in connection with defending claims or suits brought under State or Federal legislation, including Federal legislation for the protection of investors commonly known as the Securities Act of 1933 and the Securities Exchange Act of 1934. The amendment provides the manner in which the dereliction of a Director or officer is to be determined for the purpose of such reimbursement. The foregoing is a statement of the general effect of the proposed amendment and it does not purport to include all instances in which it may operate. The Corporation has no present knowledge of any pending or threatened suit or proceeding, or basis therefor, in which any present Director or officer of the Corporation, as such, is or may be a party. The proposed new Article is in substance as follows:

INDEMNIFICATION OF DIRECTORS AND OFFICERS

1. Each Director and each officer of the Corporation shall be indemnified by the Corporation against all costs and expenses reasonably incurred by him for advice or assistance concerning, or in connection with the defense of, any claim asserted or suit or proceeding brought against him by reason of his being or having been a Director or officer of the Corporation, whether or not he continues to be a Director or officer at the time of incurring such costs or expenses, except costs and expenses incurred in relation to matters as to which such Director or officer shall have been derelict in the performance of his duty as such Director or officer.

2. For the purposes of this Article, a Director or officer shall conclusively be deemed not to have been derelict in the performance of his duty as such Director or officer:

(a) in a matter which shall have been the subject of a suit or proceeding in which he was a party disposed of by adjudication on the merits, unless he shall have been finally adjudged in such suit or proceeding to have been derelict in the performance of his duty as such Director or officer, or

(b) in a matter not falling within (a) next preceding if either all disinterested members of the Board of Directors or a committee of disinterested shareholders of the Corporation (excluding therefrom any Director or officer) selected as hereinafter provided, shall determine that he is not derelict.

The selection of the committee of shareholders provided above may be made by unanimous action of the disinterested Directors or, if there be no disinterested Director or Directors, by the chief executive officer of the Corporation, provided that not less than three shareholders shall be selected in any case. A Director or shareholder shall be deemed disinterested in a matter if he has no interest therein other than as a Director or shareholder of the Corporation, as the case may be. The foregoing shall not constitute exclusive tests as to dereliction and no determination as to dereliction shall be questioned on the ground that it is made otherwise than as provided above. The Corporation may pay the fees and expenses of the shareholders or Directors, as the case may be, incurred in connection with making a determination above provided.

3. The foregoing right of indemnification shall be in addition to any rights to which any Director or officer may otherwise be entitled as a matter of law.

III.—RECORD DATE, ETC.

Shareholders of record at the close of business on August 20, 1942, shall be the only shareholders entitled to notice of and to vote at the meeting.

Please execute and return promptly the enclosed proxy whether or not you expect to attend the meeting. You may revoke your proxy, but unless you provide otherwise in your proxy, you may revoke only by giving notice to the Corporation in writing or in open meeting before any vote is taken or thereafter with the consent of the inspectors of election. A subsequent proxy will be deemed to constitute a revocation of any earlier proxy.

WEINBERGER DRUG STORES, INC.
By C. W. EVANS,
Secretary.

Cleveland, Ohio,
August 22, 1942.

WEINBERGER DRUG STORES, INC.

DIRECTORS

J. G. Gosling	E. P. Prescott
Mortimer Jacobs	Joseph Spivack
Thomas H. Jones	Adolph Weinberger
M. M. Neubauer	L. J. Wolf

OFFICERS

Adolph Weinberger	President and Treasurer
Joseph Spivack	Executive Vice-President
Milton Neubauer	Vice-President
Henry Gray	Vice-President
William Handler	Vice-President
C. W. Evans	Secretary
E. F. Thayer	Assistant Secretary

REGISTRAR AND TRANSFER AGENT

The Cleveland Trust Co.

AUDITORS

Ernst & Ernst

Cleveland, Ohio
August 18, 1942

To our Stockholders:

The Annual Report of Weinberger Drug Stores, Inc., covering the operations of the Company and its subsidiary for the fiscal year ended June 30, 1942, is herewith submitted. The Consolidated Balance Sheet and Consolidated Profit and Loss and Surplus have been examined by Ernst & Ernst, Certified Public Accountants, and their opinion is included herein.

Net Profit for the fiscal year, after deducting all charges including provision for depreciation and for all Federal and other taxes, was equivalent to $1.94 per share on the 90,000 shares outstanding for the fiscal year ended June 30, 1942, as compared to $1.78 per share for the fiscal year ended June 30, 1941. Provision for Federal Income and Excess Profits Taxes for the fiscal year ended June 30, 1942 was $223,500.00 compared with $70,546.54 for 1941. Federal Income and Excess Profits Taxes provided through June 30, 1942 were calculated on the 1941 Federal tax rates and an additional $40,000.00 was provided to cover possible retroactive increase in 1942 rates.

The regular quarterly dividend of 25 cents per share, paid October 1, 1941 and January 2, 1942, was reduced to 12½ cents per share in March and this amount was subsequently paid on April 1, 1942 and July 1, 1942. While it is probable that the old dividend rate could have been continued, our directors felt that during these uncertain times, more of the Company's earnings should be made available and applied to the earlier reduction of our bank loans. The interests of the Company and its stockholders demand that it be kept in a sound financial condition, and that its present high credit rating be maintained.

During the year, the policy of enlarging and modernizing the Company's stores, as well as the installing of soda fountain departments, has been continued. Although the number of stores operated at June 30, 1942 remains at forty-four, the same as the number operated last year, soda fountain departments now number twenty-five. Priorities coupled with the high cost and scarcity of labor will, of necessity, curtail the opening or renovating of stores during this year.

Merchandise inventories including merchandise in transit amounted to $1,712,161.42 compared with $1,198,223.70 at June 30, 1941, an increase of $513,937.72. Merchandise inventories are priced at the lower of cost or market, which price in many instances, is lower than present replacement cost. The increase in the amount of merchandise on hand is due, in part, to increased sales volume. Some part is due to increases in unit cost, but the greater part is due to the longer over-all time now required to maintain replacements at the point of sale.

The Company is cooperating with the Federal Government during this emergency, wherever possible. We have contributed generously to the advertising program of the Treasury Department to further the sale of War Savings Stamps and Bonds and, in addition, have placed War Savings Stamps on sale in all retail stores and in the general office. Our employees are enrolled under the Payroll Allotment Plan, and we have been appointed an agent by the Treasury Department for the issuance of War Bonds to both employees and to customers wishing to purchase bonds.

Accompanying this report is a notice of the Annual Meeting of Stockholders to be held on September 8, 1942, together with Proxy Statement and Proxy. If you should be unable to attend this meeting, we trust that you will promptly sign and return the Proxy so that your stock may be voted at that meeting.

Very truly yours,

ADOLPH WEINBERGER
President

CONSOLIDATED

WEINBERGER DRUG STORE

June 30

ASSETS

CURRENT ASSETS			
Cash on hand and demand deposits		$ 113,764.84	
Trade accounts receivable		16,971.93	
Tax stamps-state		20,463.58	
Inventories-at lower of cost or market:			
At stores	$ 872,494.40		
At warehouse	749,497.97		
At laboratory	34,448.38		
	$1,656,440.75		
In transit	55,720.67	1,712,161.42	$1,863,361.77
OTHER ASSETS			
Cash surrender value of life insurance—Note A		$ 43,173.42	
Miscellaneous receivables, etc.		9,714.85	
Deposits		3,608.97	
Claims against closed banks, etc.	$ 4,041.28		
Less reserve	3,324.42	716.86	57,214.10
FIXED ASSETS			
Furniture and fixtures, etc.—at cost	$ 694,929.67		
Leasehold improvements—at cost	264,310.40	$ 959,240.07	
Less reserves for depreciation and amortization		431,419.62	527,820.45
PATENTS AND TRADE-MARKS			1.00
DEFERRED CHARGES			
Prepaid insurance		$ 17,747.28	
Taxes		16,925.29	
Other		4,916.62	39,589.19
			$2,487,986.51

Note A—The Company has deposited, as collateral security to notes payable to bank, life insurance policies covering the lives of its President and Executive Vice President in the aggregate amounts of $128,449.00 and $62,500.00 respectively.

BALANCE SHEET

S, INC., AND SUBSIDIARY

, 1942

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES

Note payable to bank:			
Payments maturing prior to June 30, 1943		$ 55,000.00	
Accounts payable:			
Trade accounts	$ 407,609.39		
Salaries and wages	11,977.22		
Pay roll taxes	11,133.63		
Other	3,264.28	433,984.52	
Accrued:			
Taxes (other than taxes on income)	$ 39,061.38		
Rent	35,338.74	74,400.12	
Federal taxes on income—estimated:			
Taxes on income of year ended June 30, 1942, including provision for possible increase in rates	$ 223,500.00		
Provision for prior year	1,373.03	224,873.03	$ 788,257.67

LONG-TERM DEBT

Note payable to bank—payable $5,000.00 monthly—Note A		$ 240,000.00	
Less portion classified as current liability		55,000.00	185,000.00

RESERVE

For general contingencies	50,000.00

CAPITAL STOCK AND SURPLUS

Capital stock (without par value):			
Authorized 100,000 shares			
Outstanding 90,000 shares			
Stated capital		$ 639,670.00	
Surplus:			
Capital surplus	$ 135,815.44		
Earned surplus	689.243.40	825,058.84	1,464,728.84
			$2,487,986.51

Note B—The management of the Company has no knowledge of any contingent liabilities other than pending suits and claims for personal injury as to which, considering the nature of such cases and the amounts involved, the proceedings will not, in the opinion of the management of the Company, result in any losses of a material amount to the Company and its subsidiary.

CONSOLIDATED PROFIT AND LOSS AND SURPLUS

WEINBERGER DRUG STORES, INC., AND SUBSIDIARY

Year ended June 30, 1942

PROFIT AND LOSS SUMMARY

Gross profit		$2,478,630.94
Selling, general, and administrative expenses		2,045,297.57
OPERATING PROFIT		$ 433,333.37
Other income:		
Revenue from telephones, etc.	$ 9,053.53	
Discount on tax stamps	4,660.17	
Miscellaneous	1,990.13	15,703.83
		$ 449,037.20
Other deductions:		
Loss on disposal and abandonment of fixed assets—net	$ 12,558.67	
Expenses in connection with leases on abandoned locations	19,932.61	
Interest expense	9,750.26	
Provision for contingencies	2,000.00	
Miscellaneous	6,644.30	50,885.84
PROFIT BEFORE FEDERAL TAXES ON INCOME		$ 398,151.36
Federal taxes on income:		
Provision for current year—estimated:		
Normal income tax and surtax	$ 88,500.00	
Excess profits tax	95,000.00	
Provision for possible increase in rates	40,000.00	223,500.00
NET PROFIT		$ 174,651.36

Note—Provisions for depreciation and amortization included above aggregated $95,011.04.

SURPLUS

CAPITAL SURPLUS			
Balance at July 1, 1941, and June 30, 1942—No change during the year			$ 135,815.44
EARNED SURPLUS			
Balance at July 1, 1941		$ 582,095.61	
Net profit for year ended June 30, 1942		174,651.36	
		$ 756,746.97	
Cash dividends:			
$.25 a share paid Oct. 1, 1941	$ 22,500.00		
$.25 a share paid Jan. 2, 1942	22,500.00		
$.12½ a share paid April 1, 1942	11,251,78		
$.12½ a share payable July 1, 1942	11,251.79A	67,503.57	
BALANCE AT JUNE 30, 1942			689,243.40
TOTAL SURPLUS AT JUNE 30, 1942			$ 825,058.84

Note A—Cash dividend of $.12½ a share was declared on stock of record at June 25, 1942, payable July 1, 1942. Prior to June 30, 1942, the Company deposited funds with the dividend disbursing agent for payment of such dividend.

Board of Directors,
Weinberger Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Weinberger Drug Stores, Inc., and its subsidiary as of June 30, 1942, and the consolidated statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Inventories, except for minor amounts, were based on physical counts made by the companies at or near June 30, 1942, adjusted for transactions between dates of counts and June 30, 1942. Our examination included observation of procedures followed by employees of the companies in determining physical quantities at the warehouse, laboratory, and certain stores selected by us, and we also tested inventory records, prices and computations.

In our opinion, the accompanying balance sheet and related summary of profit and loss and surplus present fairly the consolidated position of Weinberger Drug Stores, Inc., and its subsidiary at June 30, 1942, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 18, 1942